Active Management
An approach to money management where the manager seeks to beat a predefined benchmark. Typically, higher fees are associated with this type of management, as you are paying a money manager for their ability to “add value” relative to passively investing in the benchmark.

Actuarial Accrued Liability
The present value of the estimated cost of benefits payable to active and retired members covering service rendered prior to the date of an actuarial valuation as determined by use of assumptions about the future and an actuarial cost method.

Actuarial Assumptions
Assumptions which are made for the purposes of determining the contribution which must be made in order to fund the future liabilities. Actuarial assumptions are generally grouped into two categories: demographic (i.e. life expectancy, rate of retirement, number of years worked, etc.) and economic (inflation rate, the return on investments, etc.).

Alpha
This is a measure used to determine a manager’s contribution to performance based upon security selection. On a technical level, it is the excess return of a portfolio above the portfolio’s benchmark adjusted for risk. A positive alpha indicates that a manager added value relative to the risk they took on. A negative alpha indicates that the manager lost money relative to the risk they took on.

Alternatives
As it relates to the South Carolina Retirement System Investment Commission, “alternatives” include asset classes such as: real estate, private equity, hedge funds, and commodities.

Asset Allocation
This is the process of diversifying investments among a variety of asset classes. Through this process, risk to the portfolio is reduced, as it is expected that the various asset classes will act differently under a variety of economic scenarios.

Asset-backed Securities (ABS)
These are very high quality (typically the highest investment grade rating) securities due to their backing by over-collateralized liquid assets such as car loans and credit card receivables, to illustrate some examples of the types of underlying collateral. ABS typically have short-intermediate maturities and are usually very liquid.

Asset Class
A group of investments that share similar characteristics. Types of asset classes include public equity (stocks), fixed income and various alternative investments such as commodities, real estate and private equity.

Basis Point
A unit of measurement equal to 1/100th of one percent. For example, 0.53% is equal to 53 basis points. 1.00% is equal to 100 basis points.

Benchmark
A tool utilized to measure the performance of a manager relative to the universe of securities in which they invest. Typically, benchmarks consist of a broad array of investments within a particular market.

Beta
This is a measure used to determine a portfolio’s sensitivity to movements in a particular market or asset class. In technical terms, it is the expected percentage change in return for a portfolio based upon a 1% change in the market or asset class. For example, if the S&P 500 is up 1% for the month and a portfolio has a beta of 1.2, you would expect the portfolio to be up 1.2% (or 20% more than the market). In contrast, if a portfolio has a beta of .8, this indicates that if the market is up 1% for the month, this portfolio will be up .8%(or lagging 20% relative to the market). Essentially, beta helps to measure a portfolios risk (volatility) relative to the market or asset class it is compared to.

Certificate in Investment Performance (CIPM)
A certificate which signifies competency in the area of evaluating the investment performance of investment firms.

Certified Investment Management Analyst (CIMA)
This designation focuses on asset allocation, ethics, due diligence, risk measurement, investment policy and performance measurement. Only individuals who are investment consultants with at least three years of professional experience are eligible to try to obtain this certification, which signifies a high level of consulting expertise. The Investment Management Consultants Association offers the CIMA courses.

Certified Public Accountant (CPA)
A designation given by the American Institute of Certified Public Accountants to those who pass an exam and meet work experience requirements.

Certified Treasury Professional (CTP)
A professional designation awarded by the Association for Financial Professionals to individuals who are experienced in cash management and who pass an exam demonstrating their expertise.

Chartered Alternative Investment Analyst (CAIA)
A professional designation given out by the Chartered Alternative Investment Analyst Association to establish an educational standard for individuals that specialize in the area of alternative investments (such as hedge funds, venture capital, private equity and real estate investment). In order to receive the designation, individuals must have at least one year of professional experience, a U.S. bachelor's degree and must pass two levels of curriculum that include topics ranging from qualitative analysis, trading theories of alternative investments, to indexation and benchmarking.

Chartered Financial Analyst (CFA)
A professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Before you can become a CFA charterholder, you must have four years of investment/financial career experience. To enroll in the program, you must hold a bachelor's degree. The CFA charter is one of the most respected designations in finance, considered by many to be the gold standard in the field of investment analysis.

Commodities
A physical substance such as grain, cattle, hogs, oil, etc. that is interchangeable with another product of the same type. Investing in commodities provides a diversification benefit to virtually any portfolio due to the low correlation to traditional asset classes such as stocks and bonds.

Core Fixed Income
Core fixed income is a sub-asset class that consists of traditional bond investments. The core fixed income allocation is intended to provide a source of current income and reduce overall fund volatility. In addition, it is expected to perform well during periods of disinflation and/or outright deflation.

Derivative
A financial instrument whose value and characteristic is derived from the performance of some underlying investment, such as a stock, bond, commodity, or currency. Derivatives are often used to help large investors manage their risks and gain exposure to various investments at a relatively low cost compared to holding the underlying asset.

Due Diligence
The process of investigating the details of potential and ongoing investments and managers by investors. The details include examination of the operations, management and verification of the material facts surrounding the investment.

Emerging Markets Equity
Emerging Markets Equity is a sub-asset class consisting of equity investments in companies in countries where the per capita income is below a predetermined level. Examples of emerging market countries include India, Brazil, South Africa, Mexico, Russia, Malaysia, Turkey, Poland, South Korea, Chile, and China to name a few.

Fiduciary
A person legally appointed and authorized to hold assets in trust for another person. The fiduciary manages the assets for the benefit of the other person rather than for his or her own profit.

Financial Risk Manager (FRM)
A financial designation, obtained through the Global Association of Risk Professionals (GARP) by achieving a passing score on the Financial Risk Manager (FRM) examination, having an active membership in GARP and by having two years of experience in financial risk management.

Fiscal Year
SCRS Investment Commission operates on a fiscal year which begins July 1 and ends on June 30.

Futures Contract
A standardized, transferable contract that trades on an organized exchange that requires delivery of a specified investment (stock index, stock, bond, currency) at a specified price at a predetermined date. Essentially, this allows one to replicate the performance of an investment without holding the underlying investment. (i.e. you can obtain the return of the S&P 500 by owning an S&P 500 futures contract and you don't have to own all 500 stocks in the S&P 500 index.)

Funded Ratio
This number reflects the percentage of total liabilities that the System has already funded based upon the actuarial value of the assets. For example, if the System has a funded ratio of 96%, it implies that the System could pay 96 cents of every $1 owed to beneficiaries at that point in time.

Juris Doctor (JD)
A law degree in the United States that was originally designed as a replacement to the Bachelor of Laws degree. A Juris Doctor or Juris Doctorate (JD) represents professional recognition that the holder has a doctoral degree in law. Due to the length of study that most lawyers in the U.S. have to take to attain a law degree, the name change reflected its status as a professional degree.

Leverage
The practice of borrowing funds in order to purchase additional investments/assets.

Passive Management
An approach to money management where a manager seeks to replicate the performance of a predefined benchmark. Typically, lower management fees are associated with passive management relative to active management as there is no expectation for alpha in passive strategies.

Private Equity
This investment consists of equity of privately held-companies. The role of private equity is to provide high real returns over long periods of time. The private equity allocation will be comprised of opportunities both within the U.S. and internationally. Specific types of strategies will include venture capital, buyout, and opportunistic/special situations investing.

Public Equity
This is an asset class consisting of publicly owned stock or other securities representing an ownership interest. This asset class includes domestic (including hedged equity), international developed, and emerging market equity.

Quantitative Easing
A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Real Estate Investment Trust (REIT)
A form of corporate organizational structure specifically allowed for companies whose assets are made up primarily of real estate. REITs are required to pay out 90% of their net income out to investors in the form of a dividend. Real estate primarily serves as a hedge against unanticipated general price inflation, and may also provide a significant amount of income due to the nature of real estate in providing revenues from rental properties.

Real Return
The return of a portfolio or investment after accounting for the effects of inflation.

Required Rate of Return
This is the real rate of return that the portfolio must generate in order to fund the liabilities per the actuarial assumptions being made. In SCRS Investment Commission's case we must earn 8.0% after inflation in order to fund our liabilities.

Risk-Adjusted Return
This is a return measure utilized to compare the return of two portfolios with different levels of risk. By "equalizing" the risk of both investments, you can compare the returns for an "apples-to-apples" comparison.

Standard Deviation
A statistical measure used to determine the risk, or volatility, of a portfolio. It reflects the average deviation of the sample observations from the mean (average) of the observations. Since it measures the width of the range of return outcomes, the larger the standard deviation, the greater the risk (volatility) of the portfolio. For example, if the mean return of an asset class is 5% and the standard deviation is 10, you can expect the range of outcomes to be between +15% and -5% about 68% of the time assuming the returns are normally (i.e. equally) distributed around the mean.

Treasuries
These are highly liquid securities issued by the United States Treasury that are backed by the full faith and credit of the United States government, and thus are perceived as having no credit risk.

Value At Risk (VAR)
A statistical technique used to determine the amount that can be expected to be lost from a portfolio of investments over a specified time frame.

Volatility
A statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.